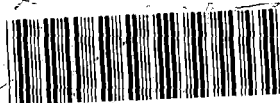


S.



06007112

MISSION

BB 3/30

## OMB APPROVAL

OMB Number: 3235-0123  
 Expires: January 31, 2007  
 Estimated average burden  
 hours per response..... 12.00

## SEC FILE NUMBER

8- 32775

# ANNUAL AUDITED REPORT FORM X-17A-5 PART III

## FACING PAGE

## Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 7/1/2005 AND ENDING 12/31/05  
 MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: INLAND SECURITIES CORPORATION

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

2901 BUTTERFIELD ROAD

(No. and Street)

OAK BROOK

ILLINOIS

60523

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

CATHERINE LYNCH

630 218-8000

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLP

(Name - if individual, state last, first, middle name)

303 E. WACKER DRIVE

CHICAGO

IL

60601

(Address)

(City)

(State)

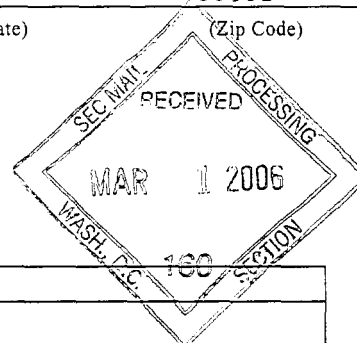
(Zip Code)

## CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.

PROCESSED

JUN 06 2006

THOMSON  
FINANCIAL

## FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
unless the form displays a currently valid OMB control number.

SEC 1410 (06-02)

MA  
6/5

## OATH OR AFFIRMATION

I, CATHERINE L. LYNCH, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of INLAND SECURITIES CORPORATION, as of DECEMBER 31, 20 05, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

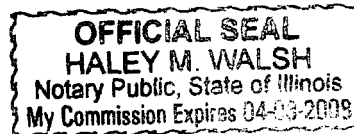
Catherine L. Lynch  
Signature  
TREASURER

\_\_\_\_\_  
Title

Haley M. Walsh  
Notary Public

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.



**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**



KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

## **Independent Auditors' Report**

The Board of Directors and Stockholder  
Inland Securities Corporation:

We have audited the accompanying statement of financial condition of Inland Securities Corporation (wholly owned by Inland Real Estate Investment Corp.) (the Company) as of December 31, 2005, and the related statements of operations, stockholder's equity, and cash flows for the period from July 1, 2005 to December 31, 2005 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inland Securities Corporation as of December 31, 2005, and the results of its operations and its cash flows for the period from July 1, 2005 to December 31, 2005 in conformity with U.S. generally accepted accounting principles.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the supplementary schedules on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 17, 2006

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Statement of Financial Condition

December 31, 2005

**Assets**

|                                   |                             |
|-----------------------------------|-----------------------------|
| Cash and cash equivalents         | \$ 21,023,782               |
| Commissions receivable            | 654,015                     |
| Mortgage note receivable (note 6) | 450,000                     |
| Warrants (note 5)                 | 825                         |
| Common stock (note 5)             | 15,600                      |
| Other assets                      | <u>136,631</u>              |
| Total assets                      | <u><u>\$ 22,280,853</u></u> |

**Liabilities and Stockholder's Equity**

Liabilities:

|                                       |                  |
|---------------------------------------|------------------|
| Commissions payable                   | \$ 1,815,364     |
| Accounts payable and accrued expenses | 338,838          |
| Income tax payable                    | <u>694,821</u>   |
| Total liabilities                     | <u>2,849,023</u> |

Stockholder's equity: (note 2)

|                                                                                                 |                             |
|-------------------------------------------------------------------------------------------------|-----------------------------|
| Common stock, \$.01 par value. Authorized<br>10,000 shares; issued and outstanding 1,000 shares | 10                          |
| Additional paid-in capital                                                                      | 6,802,253                   |
| Retained earnings                                                                               | <u>12,629,567</u>           |
| Total stockholder's equity                                                                      | <u>19,431,830</u>           |
| Total liabilities and stockholder's equity                                                      | <u><u>\$ 22,280,853</u></u> |

See accompanying notes to financial statements.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Statement of Operations

For the period from July 1, 2005 to December 31, 2005

Revenues:

|                           |                   |
|---------------------------|-------------------|
| Commissions (note 3)      | \$ 86,156,093     |
| Interest and other income | <u>186,403</u>    |
| Total revenues            | <u>86,342,496</u> |

Expenses:

|                                    |                   |
|------------------------------------|-------------------|
| Commissions                        | 75,355,707        |
| Employee compensation and benefits | 2,893,784         |
| Other operating expenses           | <u>2,247,744</u>  |
| Total expenses                     | <u>80,497,235</u> |

|                            |           |
|----------------------------|-----------|
| Income before income taxes | 5,845,261 |
|----------------------------|-----------|

|                    |                    |
|--------------------|--------------------|
| Income tax expense | <u>(2,332,259)</u> |
|--------------------|--------------------|

|            |                            |
|------------|----------------------------|
| Net income | <u><u>\$ 3,513,002</u></u> |
|------------|----------------------------|

See accompanying notes to financial statements.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Statement of Stockholder's Equity

For the period from July 1, 2005 to December 31, 2005

|                              | <u>Common<br/>stock</u> | <u>Additional<br/>paid-in<br/>capital</u> | <u>Retained<br/>earnings</u> | <u>Total<br/>stockholder's<br/>equity</u> |
|------------------------------|-------------------------|-------------------------------------------|------------------------------|-------------------------------------------|
| Balance at June 30, 2005     | \$ 10                   | 6,802,253                                 | 11,616,565                   | 18,418,828                                |
| Dividends paid               | —                       | —                                         | (2,500,000)                  | (2,500,000)                               |
| Net income                   | —                       | —                                         | 3,513,002                    | 3,513,002                                 |
| Balance at December 31, 2005 | \$ <u>10</u>            | <u>6,802,253</u>                          | <u>12,629,567</u>            | <u>19,431,830</u>                         |

See accompanying notes to financial statements.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Statement of Cash Flows

For the period from July 1, 2005 to December 31, 2005

|                                                                                   |                             |
|-----------------------------------------------------------------------------------|-----------------------------|
| Cash flows from operating activities:                                             |                             |
| Net income                                                                        | \$ 3,513,002                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |
| Depreciation                                                                      | 20,961                      |
| Changes in assets and liabilities:                                                |                             |
| Decrease in interest receivable                                                   | (96)                        |
| Decrease in commissions receivable                                                | 8,233,978                   |
| Decrease in commissions payable                                                   | (9,189,396)                 |
| Increase in accounts payable and accrued expenses                                 | 41,537                      |
| Decrease in income tax payable                                                    | (2,167,741)                 |
| Net cash flow provided by operating activities                                    | <u>452,245</u>              |
| Cash flows from investing activities:                                             |                             |
| Purchase of other assets                                                          | <u>(36,063)</u>             |
| Net cash flow used in investing activities                                        | <u>(36,063)</u>             |
| Cash flows used in financing activities:                                          |                             |
| Dividends paid                                                                    | <u>(2,500,000)</u>          |
| Net cash flow used in financing activities                                        | <u>(2,500,000)</u>          |
| Net decrease in cash and cash equivalents                                         | (2,083,818)                 |
| Cash and cash equivalents at beginning of period                                  | <u>23,107,600</u>           |
| Cash and cash equivalents at end of period                                        | <u><u>\$ 21,023,782</u></u> |

See accompanying notes to financial statements.



**INLAND SECURITIES CORPORATION**  
(A Wholly Owned by Inland Real Estate Investment Corp.)

Notes to Financial Statements

December 31, 2005

**(1) General Information and Summary of Significant Accounting Policies**

Inland Securities Corporation (the Company) is registered as a broker and dealer in securities under the Securities Exchange Act of 1934. Inland Real Estate Investment Corp. (IREIC) is the sole stockholder. The Inland Group, Inc. (Inland) is the ultimate parent.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could subsequently differ from such estimates. A description of significant accounting policies follows:

***Commissions***

In connection with the marketing of investment programs, commissions are based upon a percentage of a third-party investment in the related interest. For financial reporting and income tax purposes, these commissions are earned and the related expense is incurred at the time the third-party investment is accepted by the offering party.

***Cash and Cash Equivalents***

For purposes of reporting cash flows, the Company considers all investments with an original maturity of three months or less to be cash equivalents.

***Fair Value of Common Stock and Warrants***

The Company's investments in common stock and warrants are reported in the statement of financial condition at cost, which approximates fair value.

***Income Taxes***

The Company is included in the consolidated Federal and combined unitary state income tax returns of Inland.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**INLAND SECURITIES CORPORATION**  
(A Wholly Owned by Inland Real Estate Investment Corp.)

Notes to Financial Statements

December 31, 2005

**(2) Net Capital Requirements**

Pursuant to the Securities and Exchange Commission Uniform Net Capital Rule, the Company is required to maintain minimum net capital and maintain an allowable ratio of aggregate indebtedness to net capital as defined under this rule. At December 31, 2005, the Company had net capital and net capital requirements of \$18,398,325 and \$189,936, respectively. The Company's ratio of aggregate indebtedness to net capital was approximately 0.15 to 1.

**(3) Related-party Transactions**

Commission income of \$86,156,093 was derived from the sale of interests in investment programs in which IREIC's wholly owned subsidiaries are the advisor or asset manager.

The Company is charged direct costs for specific legal, payroll processing, information technology services, and certain other administrative services performed by administrative departments of IREIC. Such amounts totaled approximately \$8,700 for the period from July 1, 2005 to December 31, 2005. In addition, the Company paid rent to IREIC of approximately \$6,300 for the period from July 1, 2005 to December 31, 2005. In the opinion of management, the aforementioned administrative costs and rent are believed to be reasonable; however, it is not necessarily indicative of the expense the Company may have incurred on its own account.

**(4) Income Taxes**

The Company is party to a tax sharing agreement which provides that income tax expense or benefit be reflected on a separate company basis. There were no deferred tax assets or liabilities as of December 31, 2005. The Company incurred \$2,332,259 in income tax expense for the period from July 1, 2005 to December 31, 2005. Income tax expense for the period from July 1, 2005 to December 31, 2005 differs from "expected" income tax expense (computed by applying the U.S. Federal income tax rate of 35% to pretax income) principally due to the benefit state and local income taxes have on the U.S. Federal income tax rate.

**(5) Warrants and Common Stock**

In April 2000, the members of the National Association of Securities Dealers, Inc. (NASD) approved a restructuring and recapitalization of the NASD. In accordance with the restructuring and recapitalization, the Company purchased 300 warrants at \$11.00 per warrant from the NASD. The warrants allow the Company to purchase 4 shares of common stock for each warrant exercisable in 4 annual tranches, which began on June 28, 2002. In December 2000, the Company purchased 1,200 shares of common stock at \$13.00 per share from the NASD. This investment is accounted for using the cost method.

**INLAND SECURITIES CORPORATION**  
(A Wholly Owned by Inland Real Estate Investment Corp.)

Notes to Financial Statements

December 31, 2005

**(6) Mortgage Notes Receivable**

In March 2003, IREIC made a capital contribution to the Company by the transfer of a mortgage note receivable. The note represents an amount due from a partnership in which IREIC is the general partner. This note is payable in full on August 31, 2006. This note provides for the payment of interest equal to a rate of 10.5% per annum on the unpaid principal balance of the note. The payment of such interest is contingent upon the occurrence of certain events, as defined in the note agreement. Interest on this note has been fully reserved. The principal balance at December 31, 2005 is \$450,000. This receivable is secured by the related underlying property.



KPMG LLP  
303 East Wacker Drive  
Chicago, IL 60601-5212

## **Independent Auditors' Report on Internal Accounting Control Required by SEC Rule 17a-5**

The Board of Directors and Stockholder  
Inland Securities Corporation:

In planning and performing our audit of the financial statements and supplemental schedule of Inland Securities Corporation (wholly owned by Inland Real Estate Investment Corp.) (the Company) for the period from July 1, 2005 to December 31, 2005, we considered its internal control, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Regulation T of the Board of Governors of the Federal Reserve System
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by rule 15c3-3

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. One of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the NASD, and any other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 17, 2006

**INLAND SECURITIES CORPORATION**  
 (Wholly Owned by Inland Real Estate Investment Corp.)  
 Schedule of Computation of Net Capital Under Rule 15c3-1  
 of the Securities and Exchange Commission

December 31, 2005

|                                                                                                       |    |               |
|-------------------------------------------------------------------------------------------------------|----|---------------|
| Net capital:                                                                                          |    |               |
| Stockholder's equity                                                                                  | \$ | 19,431,830    |
| Deductions:                                                                                           |    |               |
| Nonallowable assets:                                                                                  |    |               |
| Commissions receivable                                                                                |    | 430,448       |
| Mortgage note receivable                                                                              |    | 450,000       |
| Warrants                                                                                              |    | 825           |
| Common stock                                                                                          |    | 15,600        |
| Other assets                                                                                          |    | 136,631       |
|                                                                                                       |    | <hr/>         |
| Total deductions                                                                                      |    | 1,033,505     |
|                                                                                                       |    | <hr/>         |
| Net capital                                                                                           |    | 18,398,325    |
| Minimum capital required to be maintained (greater<br>of \$5,000 or 6-2/3% of aggregate indebtedness) |    | <hr/> 189,936 |
|                                                                                                       |    | <hr/>         |
| Excess net capital                                                                                    | \$ | 18,208,390    |
|                                                                                                       |    | <hr/>         |
| Aggregate indebtedness – total liabilities                                                            | \$ | 2,849,023     |
|                                                                                                       |    | <hr/>         |
| Ratio of aggregate indebtedness to net capital                                                        |    | 0.15          |
|                                                                                                       |    | <hr/>         |

Note 1: The above computation does not differ from the computation of net capital under Rule 15c3-1 as of December 31, 2005 filed by Inland Securities Corporation in its Form X-17a-5 with the National Association of Securities Dealers, Inc.

See accompanying independent auditors' report.

**INLAND SECURITIES CORPORATION**  
(Wholly Owned by Inland Real Estate Investment Corp.)

Computation for Determination of Reserve Requirements and  
Information Related to Possession or Control Requirements Under  
Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2005

The Company claims exemption for the provision of Rule 15c3-3 of the Securities Exchange Act of 1934 pursuant to Section (k)(3) of the Rule.

See accompanying independent auditors' report.

**FORM  
X-17A-5**

# FOCUS REPORT

(Financial and Operational Combined Uniform Single Report)

## Part IIA Quarterly 17a-5(a)

INFORMATION REQUIRED OF BROKERS AND DEALERS PURSUANT TO RULE 17

### COVER

Select a filing method:

Basic ☒ Alternate ☐ [0011]

Name of Broker Dealer: INLAND SECURITIES CORPORATION  
[0013]

SEC File Number: 8- 32775

Address of Principal Place of Business: 2901 BUTTERFIELD ROAD  
[0020]

[0014]

OAK BROOK IL 60523  
[0021] [0022] [0023]

Firm ID: 15807  
[0015]

For Period Beginning 10/01/2005 And Ending 12/31/2005  
[0024] [0025]

Name and telephone number of person to contact in regard to this report:

Name: Catherine Lynch Phone: (630) 218-8000  
[0030] [0031]

Name(s) of subsidiaries or affiliates consolidated in this report:

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0032] [0033]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0034] [0035]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0036] [0037]

Name: \_\_\_\_\_ Phone: \_\_\_\_\_  
[0038] [0039]



Does respondent carry its own customer accounts? Yes ☐ [0040] No ☒ [0041]

Check here if respondent is filing an audited report ☐ [0042]



# ASSETS

Consolidated ☐ [0198] Unconsolidated ☒ [0199]

|                                                                                                                                  | Allowable                             | Non-Allowable                         | Total                       |
|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|-----------------------------|
| 1. Cash                                                                                                                          | <u>21,023,782</u><br>[0200]           |                                       | <u>21,023,782</u><br>[0750] |
| 2. Receivables from brokers or dealers:                                                                                          |                                       |                                       |                             |
| A. Clearance account                                                                                                             | <u>                    </u><br>[0295] |                                       |                             |
| B. Other                                                                                                                         | <u>223,566</u><br>[0300]              | <u>430,448</u><br>[0550]              | <u>654,014</u><br>[0810]    |
| 3. Receivables from non-customers                                                                                                | <u>                    </u><br>[0355] | <u>450,000</u><br>[0600]              | <u>450,000</u><br>[0830]    |
| 4. Securities and spot commodities owned, at market value:                                                                       |                                       |                                       |                             |
| A. Exempted securities                                                                                                           | <u>                    </u><br>[0418] |                                       |                             |
| B. Debt securities                                                                                                               | <u>                    </u><br>[0419] |                                       |                             |
| C. Options                                                                                                                       | <u>                    </u><br>[0420] |                                       |                             |
| D. Other securities                                                                                                              | <u>                    </u><br>[0424] |                                       |                             |
| E. Spot commodities                                                                                                              | <u>                    </u><br>[0430] |                                       | <u>0</u><br>[0850]          |
| 5. Securities and/or other investments not readily marketable:                                                                   |                                       |                                       |                             |
| A. At cost                                                                                                                       | <u>                    </u><br>[0130] |                                       |                             |
| B. At estimated fair value                                                                                                       | <u>                    </u><br>[0440] | <u>                    </u><br>[0610] | <u>0</u><br>[0860]          |
| 6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value: | <u>                    </u><br>[0460] | <u>                    </u><br>[0630] | <u>0</u><br>[0880]          |
| A. Exempted securities                                                                                                           | <u>                    </u><br>[0150] |                                       |                             |
| B. Other securities                                                                                                              | <u>                    </u><br>[0160] |                                       |                             |

|     |                                                                                                                                                                      |                                                     |                                                    |                                                     |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|-----------------------------------------------------|
| 7.  | Secured demand notes<br>market value of collateral:                                                                                                                  | <u>                    </u><br>[0470]               | <u>                    </u><br>[0640]              | <u>                    </u><br>0<br>[0890]          |
|     | A. Exempted<br>securities                                                                                                                                            |                                                     |                                                    |                                                     |
|     |                                                                                                                                                                      | <u>                    </u><br>[0170]               |                                                    |                                                     |
|     | B. Other securities                                                                                                                                                  |                                                     |                                                    |                                                     |
|     |                                                                                                                                                                      | <u>                    </u><br>[0180]               |                                                    |                                                     |
| 8.  | Memberships in<br>exchanges:                                                                                                                                         |                                                     |                                                    |                                                     |
|     | A. Owned, at<br>market                                                                                                                                               |                                                     |                                                    |                                                     |
|     |                                                                                                                                                                      | <u>                    </u><br>[0190]               |                                                    |                                                     |
|     | B. Owned, at cost                                                                                                                                                    |                                                     | <u>                    </u><br>[0650]              |                                                     |
|     | C. Contributed for<br>use of the<br>company, at<br>market value                                                                                                      |                                                     | <u>                    </u><br>[0660]              | <u>                    </u><br>0<br>[0900]          |
| 9.  | Investment in and<br>receivables from affiliates,<br>subsidiaries and<br>associated partnerships                                                                     | <u>                    </u><br>[0480]               | <u>                    </u><br>[0670]              | <u>                    </u><br>0<br>[0910]          |
| 10. | Property, furniture,<br>equipment, leasehold<br>improvements and rights<br>under lease agreements,<br>at cost-net of accumulated<br>depreciation and<br>amortization | <u>                    </u><br>[0490]               | <u>                    </u><br>136,631<br>[0680]   | <u>                    </u><br>136,631<br>[0920]    |
| 11. | Other assets                                                                                                                                                         | <u>                    </u><br>[0535]               | <u>                    </u><br>16,425<br>[0735]    | <u>                    </u><br>16,425<br>[0930]     |
| 12. | TOTAL ASSETS                                                                                                                                                         | <u>                    </u><br>21,247,348<br>[0540] | <u>                    </u><br>1,033,504<br>[0740] | <u>                    </u><br>22,280,852<br>[0940] |

## LIABILITIES AND OWNERSHIP EQUITY

| Liabilities                                                         | A.I. Liabilities    | Non-A.I. Liabilities | Total               |
|---------------------------------------------------------------------|---------------------|----------------------|---------------------|
| 13. Bank loans payable                                              | [1045]              | [1255]               | 0<br>[1470]         |
| 14. Payable to brokers or dealers:                                  |                     |                      | 0                   |
| A. Clearance account                                                | [1114]              | [1315]               | [1560]              |
|                                                                     | 1,815,363           |                      | 1,815,363           |
| B. Other                                                            | [1115]              | [1305]               | [1540]              |
| 15. Payable to non-customers                                        | [1155]              | [1355]               | 0<br>[1610]         |
| 16. Securities sold not yet purchased,<br>at market value           |                     | [1360]               | 0<br>[1620]         |
| 17. Accounts payable, accrued<br>liabilities, expenses and other    | 1,033,659<br>[1205] | [1385]               | 1,033,659<br>[1685] |
| 18. Notes and mortgages payable:                                    |                     |                      | 0                   |
| A. Unsecured                                                        | [1210]              |                      | [1690]              |
| B. Secured                                                          | [1211]              | [1390]               | 0<br>[1700]         |
| 19. Liabilities subordinated to claims<br>of general creditors:     |                     |                      | 0                   |
| A. Cash borrowings:                                                 |                     | [1400]               | [1710]              |
| 1. from outsiders                                                   |                     |                      |                     |
|                                                                     | [0970]              |                      |                     |
| 2. Includes equity subordination<br>(15c3-1(d)) of                  |                     |                      |                     |
|                                                                     | [0980]              |                      |                     |
| B. Securities borrowings,<br>at market value:<br><br>from outsiders |                     | [1410]               | 0<br>[1720]         |
|                                                                     | [0990]              |                      |                     |
| C. Pursuant to secured demand note collateral<br>agreements:        |                     | [1420]               | 0<br>[1730]         |
| 1. from outsiders                                                   |                     |                      |                     |

[1000]

2. Includes equity subordination (15c3-1(d)) of

[1010]

- D. Exchange memberships contributed for use of company, at market value

0  
[1430] [1740]

- E. Accounts and other borrowings not qualified for net capital purposes

[1220] [1440] 0 [1750]

20. TOTAL LIABILITIES 2,849,022 [1230]

0 [1450] 2,849,022 [1760]

## Ownership Equity

### Total

21. Sole proprietorship [1770]

22. Partnership (limited partners [1020] ) [1780]

23. Corporations:

A. Preferred stock [1791]

B. Common stock 10 [1792]

C. Additional paid-in capital 6,802,253 [1793]

D. Retained earnings 12,629,567 [1794]

E. Total 19,431,830 [1795]

F. Less capital stock in treasury [1796]

24. TOTAL OWNERSHIP EQUITY 19,431,830 [1800]

25. TOTAL LIABILITIES AND OWNERSHIP EQUITY 22,280,852 [1810]

# STATEMENT OF INCOME (LOSS)

Period Beginning 10/01/2005  
[3932]

Period Ending 12/31/2005  
[3933]

Number of months 3  
[3931]

## REVENUE

### 1. Commissions:

|                                                                                             |        |
|---------------------------------------------------------------------------------------------|--------|
| a. Commissions on transactions in exchange listed equity securities executed on an exchange | [3935] |
| b. Commissions on listed option transactions                                                | [3938] |
| c. All other securities commissions                                                         | [3939] |
|                                                                                             | 0      |
| d. Total securities commissions                                                             | [3940] |

### 2. Gains or losses on firm securities trading accounts

|                                                                    |        |
|--------------------------------------------------------------------|--------|
| a. From market making in options on a national securities exchange | [3945] |
| b. From all other trading                                          | [3949] |
|                                                                    | 0      |
| c. Total gain (loss)                                               | [3950] |

### 3. Gains or losses on firm securities investment accounts

[3952]

### 4. Profit (loss) from underwriting and selling groups

11,019,155  
[3955]

### 5. Revenue from sale of investment company shares

[3970]

### 6. Commodities revenue

[3990]

### 7. Fees for account supervision, investment advisory and administrative services

[3975]

### 8. Other revenue

87,377  
[3995]

### 9. Total revenue

11,106,532  
[4030]

## EXPENSES

### 10. Salaries and other employment costs for general partners and voting stockholder officers

[4120]

### 11. Other employee compensation and benefits

1,544,643  
[4115]

### 12. Commissions paid to other broker-dealers

9,012,655  
[4140]

### 13. Interest expense

[4075]

#### a. Includes interest on accounts subject to subordination agreements

[4070]

### 14. Regulatory fees and expenses

62,853  
[4195]

### 15. Other expenses

1,337,732  
[4100]

### 16. Total expenses

11,957,883

[4200]

**NET INCOME**

|                                                                                        |                 |        |
|----------------------------------------------------------------------------------------|-----------------|--------|
| 17. Net Income(loss) before Federal income taxes and items below (Item 9 less Item 16) | <u>-851,351</u> | [4210] |
| 18. Provision for Federal income taxes (for parent only)                               | <u>-339,689</u> | [4220] |
| 19. Equity in earnings (losses) of unconsolidated subsidiaries not included above      | <u></u>         | [4222] |
| a. After Federal income taxes of                                                       | <u></u>         | [4238] |
| 20. Extraordinary gains (losses)                                                       | <u></u>         | [4224] |
| a. After Federal income taxes of                                                       | <u></u>         | [4239] |
| 21. Cumulative effect of changes in accounting principles                              | <u></u>         | [4225] |
| 22. Net income (loss) after Federal income taxes and extraordinary items               | <u>-511,662</u> | [4230] |

**MONTHLY INCOME**

|                                                                                                     |               |        |
|-----------------------------------------------------------------------------------------------------|---------------|--------|
| 23. Income (current monthly only) before provision for Federal income taxes and extraordinary items | <u>48,153</u> | [4211] |
|-----------------------------------------------------------------------------------------------------|---------------|--------|

## EXEMPTIVE PROVISIONS

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based

A. (k)

(1)--Limited business (mutual funds and/or variable annuities only)

☐ [4550]

B. (k)

(2)(i)--"Special Account for the Exclusive Benefit of customers" maintained

☒ [4560]

C. (k)

(2)(ii)--All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm(s)

☐ [4570]

Clearing Firm SEC#s

Name

Product Code

8- \_\_\_\_\_  
[4335A]

[4335A2]

\_\_\_\_\_ [4335B]

8- \_\_\_\_\_  
[4335C]

[4335C2]

\_\_\_\_\_ [4335D]

8- \_\_\_\_\_  
[4335E]

[4335E2]

\_\_\_\_\_ [4335F]

8- \_\_\_\_\_  
[4335G]

[4335G2]

\_\_\_\_\_ [4335H]

8- \_\_\_\_\_  
[4335I]

[4335I2]

\_\_\_\_\_ [4335J]

D. (k)

(3)--Exempted by order of the Commission

☐ [4580]

## COMPUTATION OF NET CAPITAL

|    |                                                                                                    |         |            |         |
|----|----------------------------------------------------------------------------------------------------|---------|------------|---------|
| 1. | Total ownership equity from Statement of Financial Condition                                       |         | 19,431,830 |         |
|    |                                                                                                    |         | [3480]     |         |
| 2. | Deduct ownership equity not allowable for Net Capital                                              |         |            | [3490]  |
|    |                                                                                                    |         | 19,431,830 |         |
| 3. | Total ownership equity qualified for Net Capital                                                   |         |            | [3500]  |
| 4. | Add:                                                                                               |         |            |         |
|    | A. Liabilities subordinated to claims of general creditors allowable in computation of net capital |         | 0          | [3520]  |
|    | B. Other (deductions) or allowable credits (List)                                                  |         |            |         |
|    |                                                                                                    | [3525A] |            | [3525B] |
|    |                                                                                                    | [3525C] |            | [3525D] |
|    |                                                                                                    | [3525E] |            | [3525F] |
|    |                                                                                                    |         | 0          | [3525]  |
| 5. | Total capital and allowable subordinated liabilities                                               |         | 19,431,830 | [3530]  |
| 6. | Deductions and/or charges:                                                                         |         |            |         |
|    | A. Total nonallowable assets from Statement of Financial Condition (Notes B and C)                 |         | 1,033,504  | [3540]  |
|    | B. Secured demand note deficiency                                                                  |         |            | [3590]  |
|    | C. Commodity futures contracts and spot commodities - proprietary capital charges                  |         |            | [3600]  |
|    | D. Other deductions and/or charges                                                                 |         |            | [3610]  |
|    |                                                                                                    |         | -1,033,504 | [3620]  |
| 7. | Other additions and/or credits (List)                                                              |         |            |         |
|    |                                                                                                    | [3630A] |            | [3630B] |
|    |                                                                                                    | [3630C] |            | [3630D] |
|    |                                                                                                    | [3630E] |            | [3630F] |
|    |                                                                                                    |         | 0          | [3630]  |
| 8. | Net capital before haircuts on securities positions                                                |         | 18,398,326 | [3640]  |
| 9. | Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):                        |         |            |         |
|    | A. Contractual securities commitments                                                              |         |            | [3660]  |
|    | B. Subordinated securities borrowings                                                              |         |            | [3670]  |
|    | C. Trading and investment securities:                                                              |         |            |         |



|                        |         |        |            |
|------------------------|---------|--------|------------|
| 1. Exempted securities |         | [3735] |            |
| 2. Debt securities     |         | [3733] |            |
| 3. Options             |         | [3730] |            |
| 4. Other securities    |         | [3734] |            |
| D. Undue Concentration |         | [3650] |            |
| E. Other (List)        |         |        |            |
|                        | [3736A] |        | [3736B]    |
|                        | [3736C] |        | [3736D]    |
|                        | [3736E] |        | [3736F]    |
|                        |         | 0      | 0          |
|                        |         | [3736] | [3740]     |
| 10. Net Capital        |         |        | 18,398,326 |
|                        |         |        | [3750]     |

## COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

### Part A.

|                                                                                                                                                                         |            |  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--|
| 11. Minimum net capital required (6-2/3% of line 19)                                                                                                                    | 189,934    |  |
|                                                                                                                                                                         | [3756]     |  |
| 12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with <u>Note(A)</u> | 5,000      |  |
|                                                                                                                                                                         | [3758]     |  |
| 13. Net capital requirement (greater of line 11 or 12)                                                                                                                  | 189,934    |  |
|                                                                                                                                                                         | [3760]     |  |
| 14. Excess net capital (line 10 less 13)                                                                                                                                | 18,208,392 |  |
|                                                                                                                                                                         | [3770]     |  |
| 15. Excess net capital at 1000% (line 10 less 10% of line 19)                                                                                                           | 18,113,423 |  |
|                                                                                                                                                                         | [3780]     |  |

## COMPUTATION OF AGGREGATE INDEBTEDNESS

|                                                                                          |           |        |
|------------------------------------------------------------------------------------------|-----------|--------|
| 16. Total A.L. liabilities from Statement of Financial Condition                         | 2,849,022 |        |
|                                                                                          | [3790]    |        |
| 17. Add:                                                                                 |           |        |
| A. Drafts for immediate credit                                                           |           | [3800] |
| B. Market value of securities borrowed for which no equivalent value is paid or credited |           | [3810] |
| C. Other unrecorded amounts (List)                                                       |           |        |

[3820A]

[3820B]

[3820C]

[3820D]

[3820E]

[3820F]

0

0

[3820]

[3830]

2,849,022

[3840]

% 15

[3850]

19. Total aggregate indebtedness

20. Percentage of aggregate indebtedness to net capital (line 19 / line 10)

## OTHER RATIOS

21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)

% 0

[3860]

## SCHEDULED WITHDRAWALS

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

| Type of<br>Proposed<br>Withdrawal<br>or Accrual | Name of Lender or Contributor | Insider<br>or<br>Outsider | Amount to be Withdrawn<br>(cash amount and/or Net<br>Capital Value of<br>Securities) | Withdrawal or<br>Maturity Date<br>(MMDDYYYY) | Expect<br>to<br>Renew |
|-------------------------------------------------|-------------------------------|---------------------------|--------------------------------------------------------------------------------------|----------------------------------------------|-----------------------|
| [4600]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4601]                        | [4602]                    |                                                                                      | [4603]                                       | [4604] [4605]         |
| [4610]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4611]                        | [4612]                    |                                                                                      | [4613]                                       | [4614] [4615]         |
| [4620]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4621]                        | [4622]                    |                                                                                      | [4623]                                       | [4624] [4625]         |
| [4630]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4631]                        | [4632]                    |                                                                                      | [4633]                                       | [4634] [4635]         |
| [4640]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4641]                        | [4642]                    |                                                                                      | [4643]                                       | [4644] [4645]         |
| [4650]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4651]                        | [4652]                    |                                                                                      | [4653]                                       | [4654] [4655]         |
| [4660]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4661]                        | [4662]                    |                                                                                      | [4663]                                       | [4664] [4665]         |
| [4670]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4671]                        | [4672]                    |                                                                                      | [4673]                                       | [4674] [4675]         |
| [4680]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4681]                        | [4682]                    |                                                                                      | [4683]                                       | [4684] [4685]         |
| [4690]                                          |                               |                           |                                                                                      |                                              |                       |
|                                                 | [4691]                        | [4692]                    |                                                                                      | [4693]                                       | [4694] [4695]         |
| TOTAL                                           |                               |                           | 0                                                                                    |                                              |                       |
| \$                                              |                               |                           |                                                                                      |                                              |                       |
|                                                 |                               |                           | [4699]                                                                               |                                              |                       |
| Omit Pennies                                    |                               |                           |                                                                                      |                                              |                       |

**Instructions** Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

| Withdrawal Code | Description                  |
|-----------------|------------------------------|
| 1               | Equity Capital               |
| 2               | Subordinated Liabilities     |
| 3               | Accruals                     |
| 4               | 15c3-1(c)(2)(iv) Liabilities |

## STATEMENT OF CHANGES

### STATEMENT OF CHANGES IN OWNERSHIP EQUITY (SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

|    |                                                   |                             |                             |
|----|---------------------------------------------------|-----------------------------|-----------------------------|
| 1. | Balance, beginning of period                      |                             | <u>20,943,492</u>           |
|    |                                                   |                             | [4240]                      |
|    | A. Net income (loss)                              |                             | <u>-511,662</u>             |
|    |                                                   |                             | [4250]                      |
|    | B. Additions (includes non-conforming capital of  | <u>                    </u> | <u>                    </u> |
|    |                                                   | [4262] )                    | [4260]                      |
|    | C. Deductions (includes non-conforming capital of | <u>                    </u> | <u>-1,000,000</u>           |
|    |                                                   | [4272] )                    | [4270]                      |
| 2. | Balance, end of period (From item 1800)           |                             | <u>19,431,830</u>           |
|    |                                                   |                             | [4290]                      |

### STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

|    |                                         |  |                             |
|----|-----------------------------------------|--|-----------------------------|
| 3. | Balance, beginning of period            |  | <u>                    </u> |
|    |                                         |  | [4300]                      |
|    | A. Increases                            |  | <u>                    </u> |
|    |                                         |  | [4310]                      |
|    | B. Decreases                            |  | <u>                    </u> |
|    |                                         |  | [4320]                      |
| 4. | Balance, end of period (From item 3520) |  | <u>0</u>                    |
|    |                                         |  | [4330]                      |

## FOCUS

Part IIA  
17a-5(a) Quarterly  
December 2005

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Results

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Warnings - 0

Cover

Assets

Liabilities

Income

Exemptive  
Provision

Net Capital

Scheduled  
WithdrawalsStatement of  
Changes

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User Id: MSORCE INLAND SECURITIES CORPORATION Firm Id: 15807

## STATEMENT OF CHANGES

STATEMENT OF CHANGES IN OWNERSHIP EQUITY  
(SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

|    |                                         |                                                |   |            |        |
|----|-----------------------------------------|------------------------------------------------|---|------------|--------|
| 1. | Balance, beginning of period            |                                                |   | 20,943,492 |        |
|    |                                         |                                                |   |            | [4240] |
|    | A.                                      | Net income (loss)                              |   | -511,662   |        |
|    |                                         |                                                |   |            | [4250] |
|    | B.                                      | Additions (includes non-conforming capital of  | + |            | +      |
|    |                                         |                                                |   | [4262]     |        |
|    |                                         |                                                |   |            | [4260] |
|    | C.                                      | Deductions (includes non-conforming capital of | + |            | -      |
|    |                                         |                                                |   | -1,000,000 |        |
|    |                                         |                                                |   |            | [4270] |
|    |                                         |                                                |   |            | [4272] |
| 2. | Balance, end of period (From item 1800) |                                                |   | 19,431,830 |        |
|    |                                         |                                                |   |            | [4290] |

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED  
TO CLAIMS OF GENERAL CREDITORS

|    |                                         |           |   |   |        |
|----|-----------------------------------------|-----------|---|---|--------|
| 3. | Balance, beginning of period            |           |   |   | [4300] |
|    |                                         |           |   |   |        |
|    | A.                                      | Increases | + |   |        |
|    |                                         |           |   |   | [4310] |
|    | B.                                      | Decreases | - |   |        |
|    |                                         |           |   |   | [4320] |
| 4. | Balance, end of period (From item 3520) |           |   | 0 | [4330] |

[Cover] [Assets] [Liabilities] [Income] [Exemptive Provisions] [Net Capital] [Scheduled Withdrawals]  
[Statement of Changes]

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